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Tarrant County Texas

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**NOTICE OF CONFIDENTIALITY RIGHTS: IF YOU ARE A NATURAL PERSON, YOU MAY REMOVE OR STRIKE ANY OR ALL OF THE FOLLOWING INFORMATION FROM ANY INSTRUMENT THAT TRANSFERS AN INTEREST IN REAL PROPERTY BEFORE IT IS FILED FOR RECORD IN THE PUBLIC RECORDS: YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVER'S LICENSE NUMBER.**

THIS AGREEMENT, made and entered into this 2nd day of November, 2009, between BAYLOR UNIVERSITY, Lessor, whose address is 1601 Elm, Suite 1700, Dallas, Dallas County, Texas 75201-7241, and PALOMA BARNETT, LLC, a Delaware limited liability company, Lessee (whether one or more), whose address is 1021 Main Street, Suite 2600, Houston, Texas 77002-6066.

6606

## WITNESSETH:

1. Lessor in consideration of Ten and No/100 Dollars (\$10.00), in hand paid, of the royalties herein provided, and of the covenants and agreements of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling and mining for and producing oil, gas and related hydrocarbons, injecting gas, waters, other fluids and air into sub-surface strata, laying pipe lines, building tanks, power stations, telephone lines and other structures thereon to produce, save, take care of, treat, transport, and own said products, the following described land in Tarrant County, Texas:

Being 0.712 mineral acres of land, more and less, situated in the County of Tarrant, State of Texas, and being out of the W.J. Barry survey, Abstract No. A-155, and being a part of a tract of land conveyed by Mattie Myrtle Hanson and husband, C.H. Hanson to H.J. Kight and wife, Ethel Pearl Kight by deed dated November 25, 1952, and recorded in Volume 2500, page 417 of the Deed Records, Tarrant County, Texas, said minerals having been reserved in a Right-of-Way Deed, H.J. Kight and wife, Ethel Pearl Kight to the State of Texas, and recorded February 3<sup>rd</sup>, 1985, Volume 3185, Page 593 of the Deed Records, Tarrant County, and more particularly described as follows:

BEGINNING at a point in the West line of N.W. corner of said tract of land, said point also being S. 89°26 min. E. 767.52 ft., and S. 0°, 41 min. W. 316.48 ft., from the N.W. corner of Lot 6, Fuller's Subdivision as shown on the plat filed in Volume 1383, page 385, of the Deed Records of Tarrant County, Texas:

THENCE S. 85° 28 min. E. along a line 95 ft., from and parallel with the centerline of Spur Hwy., 303, a distance of 38.64 ft., to the beginning of a curve to the left;

THENCE in a southeasterly direction along the arc of a circular curve to the left having a central angle of 80° 56 min., and a radius of 11,364.15 ft., 95 ft., from and concentric with the centerline of Spur Hwy. 303, a distance of 186.77 ft., to a point in the East line of said H.J. Kight tract of land;

THENCE S. 0° 31 min., W. along the East line of said H.J. Kight tract of land, a distance of 175.39 ft.;

THENCE in a northwesterly direction along the arc of a circular curve to the right, having a central angle of 0° 27 min., and a radius of 11,539.16 ft., 80 ft., from and concentric with the centerline of Spur Hwy. 303, a distance of 90.68 ft.;

THENCE S. 67° 36 min., W. a distance of 114.09 ft.;

THENCE N. 85° 28 min., W. along a line 115ft., from and parallel with the centerline of Spur Hwy. 303, a distance of 24.49 ft., to a point in the West line of said H.J. Kight tract of land;

THENCE N. 0° 41 min., E. along the West line of said H.J. Kight tract of land, a distance of 210.48 ft., to the point of beginning and containing 0.712 of an acre land, more or less.

For all purposes of this lease, the area comprising the leased premises shall be deemed to be 0.712 acres, even though it actually contains more or less and regardless of Lessor's interest therein.

2. Subject to the other provisions herein contained, this lease shall be for a term of three (3) years from the effective date hereof (called "primary term") and as long thereafter as oil and/or gas is produced in paying quantities from said land hereunder.
3. Lessee agrees that all royalties accruing under this lease shall be paid without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting, marketing, and otherwise making the oil, gas, casinghead gas, and other products produced hereunder ready for sale or use. The royalties to be paid by Lessee are: (a) on oil, twenty-five percent (25%) of that produced and saved from said land, the same to be delivered free of charge at the wells or to the credit of Lessor into the pipeline to which the wells may be connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefor prevailing for the field where produced on the date of purchase; and (b) on gas, including casinghead gas or other gaseous substance, produced from said land and sold or used off the premises or in the manufacture of gasoline or other product therefrom, the market value at the point of sale of twenty-five percent (25%) of the gas so sold or used, provided that on gas sold in a bona fide transaction between Lessee and a party not controlled by or affiliated with Lessee the term "market value" shall be

the amount realized from such sale. Should Lessee or affiliates of Lessee, receive any other compensation, either directly or indirectly, for gas sold from said land, such payments and other compensation shall, in computing royalty payments hereunder, be considered part of the "amount realized" from the sale of gas at the time the same are received. Where gas from a well capable of producing gas only is not sold or used, Lessee shall pay as royalty to Lessor's address above One Hundred Dollars (\$100.00) per acre per year, commencing on or before ninety (90) days after completion of such shut-in gas well or if the well has previously produced gas, then within ninety (90) days after such well is shut-in and annually thereafter; and while such payment is made it will be considered that gas is being produced within the meaning of Paragraph 2. hereof; provided, however, it is agreed that after the end of the primary term hereof, this lease may not be maintained in force and effect solely by the payment of shut-in royalty for any cumulative period in excess of three (3) years. However, Lessee shall be entitled to invoke the shut-in royalty provisions from time to time for cumulative periods not to exceed three (3) years. The term "gas only" includes gas, distillate, condensate, and other substances produced from a gas well or a well classified as a gas well by any governmental agency having jurisdiction, but not casinghead gas or any substance produced from any oil well. Lessee agrees that all gas produced from the lease premises that is not processed in a plant or plants from which products derived therefrom and the residue gas is ratably allocated to the lease premises for the payment of royalties shall, if economically feasible to do so before the same is sold or used for any purpose or transported from the lease premises, be passed through a conventional separator designed and operated to effect the maximum economical recovery of liquids therefrom and any and all such liquids shall for the purpose of this lease, be treated as oil for royalty payment. Lessee shall have the free use of oil, gas, and water from said land, except water from existing wells or surface reservoirs, for all operations hereunder, except secondary recovery operations, and the royalty on oil and/or gas shall be computed after deducting any so used. All royalty on oil, gas and associated hydrocarbons shall be due and payable to Lessor within three (3) months of the date when initial production from any well commences. Thereafter, royalty shall be due and payable on or before the last day of the second month succeeding the month of production. In the event a royalty is not so timely paid, Lessee agrees that it will pay Lessor interest on the amount so due at the (generally accepted) prime rate per annum for the royalties so owing, said interest to commence on the day following the date such royalty is owing by the terms hereof. It is agreed between the Lessor and Lessee that, notwithstanding any language herein to the contrary, all oil, gas or other proceeds accruing to the credit or benefit of Lessor under this Lease or by state law shall be without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting and marketing the oil, gas and other products to be produced under the Lease; however, in the event Lessee determines in good faith that it can obtain a higher price at a market located outside of the local market, and Lessee incurs transportation costs charged by an unaffiliated interstate or intrastate gas pipeline in order to enhance the value of the oil, gas or other products, Lessor's pro rata share of such costs may be deducted from Lessor's share of production. In no event shall Lessor ever receive a price that is less than the price to be received by Lessee. Lessee agrees to provide and make available to Lessor upon written request Lessee's records maintained or utilized in connection with any efforts to enhance the value of the oil, gas or other products to be produced pursuant to and in connection with this Lease together with any costs paid or proceeds received by Lessee hereunder.

4. As used in this lease, "actual drilling" or "actual drilling operations" shall mean the actual penetration of the ground by a drill bit and a rig capable of drilling a wellbore to the objective depth on location. If actual drilling operations are not commenced on said land on or before three (3) years from the effective date hereof, this lease shall then terminate as to both parties.
5. Lessee shall have the right but not the obligation to pool all or any part of the leased premises or interest therein with any other lands or interests, as to any or all depths or zones, and as to any or all substances covered by this lease, either before or after the commencement of drilling or production, whenever Lessee deems it necessary or proper to do so in order to prudently develop or operate the leased premises, whether or not similar pooling authority exists with respect to such other lands or interests. The creation of a unit by such pooling shall be based on the following criteria (hereinafter called "pooling criteria"): A unit for the production of oil from an "oil well" (excluding production through a horizontal completion) shall not exceed 40 acres, plus a maximum acreage tolerance of 10%, and a unit for the production of gas from a "gas well" or for the production of oil through a horizontal completion shall not exceed six hundred forty (640) acres, plus a maximum tolerance of 10%; *provided, however*, that in any instance a larger unit may be formed to (a) conform to any well spacing or density pattern that may be prescribed or permitted by any governmental authority having jurisdiction to do so and/or (b) authorize production from any well drilled or to be drilled in said unit at a rate equal to the maximum legal allowable pursuant to any applicable rules or regulations affecting such well, including but not limited to the Additional Acreage Assignment provisions for horizontal drain hole wells. For the purpose of the foregoing, the terms "oil well" and "gas well" shall have the meanings prescribed by applicable law or the appropriate governmental authority, or, if no definition is so prescribed, "oil well" means a well with an initial gas-oil ratio of less than 100,000 cubic feet per barrel and "gas well" means a well with an initial gas-oil ratio of 100,000 cubic feet or more per barrel, based on a 24 hour production test conducted under normal producing conditions using standard lease separator facilities or equivalent testing equipment; and the term "horizontal completion" means an oil well in which the horizontal component of the gross completion interval in the reservoir exceeds the vertical component thereof. In order to evidence the exercise of its pooling rights hereunder, Lessee shall file of record a written declaration describing the unit. Production or operations anywhere on a unit which includes all or any part of the leased premises shall be treated as if it were production or operations on the leased premises, except that the production on which Lessor's royalty is calculated shall be that proportion of the total unit production which the net surface acreage covered by this lease and included in the unit bears to the total gross surface acreage in the unit, but only when and to the extent such proportion of unit production is taken and sold by or on behalf of Lessee. In the event a unit is formed hereunder before the unit well is drilled and completed, so that the applicable pooling criteria are not yet known, the unit shall be based on the pooling criteria Lessee expects in good faith to apply upon completion of the well; provided that within a reasonable time after completion of the well, the unit shall be revised if necessary to conform to the pooling criteria that actually exist. Pooling in one or more instances shall not exhaust Lessee's pooling rights hereunder, and Lessee shall have the recurring right but not the obligation to revise any unit formed hereunder by expansion or contraction or both, either before or after commencement of production, in order to conform to the well spacing or density pattern prescribed or permitted by the governmental authority having jurisdiction, or to conform to any productive acreage determination made, or allowable rate authorized, by such governmental authority. To evidence its revision of a unit hereunder, Lessee shall file of record a written declaration describing the revised unit. The day after the date such written declaration (or any counterpart thereof) is filed shall be the effective date of such revision, and to the extent any portion of the leased premises is included in or excluded from the unit by virtue of such revision, the proportion of unit production on which royalties are payable hereunder shall thereafter be adjusted accordingly from and after such effective date. Lessee may at any time terminate a unit by filing of record a written declaration of

termination. In the event this Lease now or hereafter covers separate tracts (i.e., tracts with royalty ownership differing, as to parties or amounts, from that as to any other part of the leased premises), no pooling, apportionment or other combination of royalty interests as between any such tracts, or royalty interests therein, is intended or shall be implied or result from the inclusion of such separate tracts within the same lease, but Lessee shall nevertheless have the right to pool or otherwise combine as provided above, with consequent allocation of production as provided above. Notwithstanding any provision of this paragraph or otherwise of this Lease to the contrary, the exercise of any pooling authority afforded Lessee under this Lease shall not be construed to effect an unauthorized pooling of a nonparticipating royalty interest or other nonexecutive interest that the named Lessor is not authorized to pool (a "Nonexecutive Interest"); however, ratification of this Lease by the owner of any Nonexecutive Interest shall serve to ratify both the pooling provisions hereof and the anti-entireties provisions.

6. If prior to discovery and production of oil and gas on the land or on acreage pooled therewith, Lessee should drill a dry hole or holes thereon, or if after discovery and production of oil or gas, the production thereof should cease from any cause, this lease shall nevertheless continue in effect if Lessee commences actual drilling or reworking operations within sixty (60) days thereafter, provided that this lease will nevertheless terminate if Lessee shall cease such actual drilling or reworking operations of a well on the leased premises prior to resumption of production of oil or gas thereon for any period in excess of sixty (60) consecutive days, and shall fail to resume production or to commence actual drilling or reworking operations on the well or an additional well on the leased premises or land pooled therewith prior to expiration of the 60-day period. It is understood and agreed that if, during the primary term hereof, all operations or production ceases on the leased premises or on land or leases pooled therewith, this lease shall nevertheless remain in full force and effect during the paid-up primary term hereof. If at the expiration of the primary term, oil or gas is not being produced on the land, but Lessee is then engaged in actual drilling or reworking operations thereon, or shall have completed a dry hole thereon within sixty (60) days prior to the end of the primary term, the lease shall remain in force so long as operations on the well or for actual drilling or reworking of any additional well are prosecuted with no cessation of more than sixty (60) consecutive days between abandonment of operations on a well and commencement or resumption of operations on the well or on an additional well, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from the land. In the event a well or wells producing oil or gas in paying quantities should be brought in on other land in the vicinity of and draining the leased premises, Lessee agrees to drill such offset wells as a reasonably prudent operator would drill under the same or similar circumstances. Such offset well or wells shall be commenced within sixty (60) days after commencement of production in paying quantities from the well being offset.
7. Lessee shall completely protect the oil, gas, and casinghead gas in and under the leased premises from drainage by wells on adjoining lands or leases, as would a reasonable prudent operator. Neither the bonus, royalties paid, nor drilling operations conducted in accordance with Paragraph 3. shall relieve Lessee from this obligation. Lessee shall drill as many wells to the leased formations as are necessary and to a depth or depths necessary for complete protection of the leased formations against drainage of oil, gas, and casinghead gas from the adjacent lands or leases, as would a reasonable prudent operator. Upon written request, Lessee shall promptly deliver and or make available to Lessor at no cost or expense all information that is public information in Lessee's possession relative to the drilling, completion, or reworking operations conducted on all production histories, profiles, projections, or records pertaining to any wells or wells located on the lands adjacent to the leased premises.
8. Lessee agrees to drill any and all wells on the leased premises, or such portion or portions thereof as may be in force and effect from time to time, as necessary to reasonably explore and develop the land for oil or gas, and shall notify Lessor of any event affecting lease continuation. In performance of the obligations of Paragraphs 7. and 8., Lessee's duty shall be that of a prudent operator.
9. After the discovery of oil and/or gas on said land, Lessee shall further develop said land as a reasonably prudent operator would do in the same or similar circumstances. Lessee shall adequately protect the oil and gas under said land from drainage from the adjacent lands or leases. In the event a well or wells producing oil and/or gas in paying quantities should be brought in on adjacent land and draining the lease premises, Lessee agrees to drill such offset wells as a reasonably prudent operator would drill under the same or similar circumstances. A producing well within two hundred feet (200') of a lease line herein shall be deemed to be draining the lease premises. Neither the bonus nor royalties paid or to be paid hereunder shall relieve Lessee from the obligation herein expressed, and for such purpose Lessee shall be required to drill as many wells as the facts may justify and to the depth or depths necessary for effective protection against undue drainage by other wells on adjacent lands or leases.
10. Lessee shall have the right at any time during or within a reasonable time after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all pipe lines below ordinary plow depth, and no well shall be drilled within two hundred feet (200') of any residence or barn now on said land without Lessor's consent.
11. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to their heirs, successors and assigns, but no change or division in ownership of the land or royalties, however accomplished, shall operate to enlarge the obligation or diminish the rights of Lessee. No sale or assignment by Lessor shall be binding on Lessee until Lessee shall be furnished a copy of the recorded instrument evidencing same. Lessee shall give Lessor prompt written notice of any assignment of this lease as to all or any portion of the lands covered hereby, and such notice shall be accompanied by a true copy of the instrument effecting such assignment within one hundred-twenty (120) days of its recording in the county records. All rights, covenants, and obligations of each party hereunder shall extend to and be binding upon the heirs, successors and assigns of such party. Lessee shall have the right at any time to surrender this lease, in whole or in part, to Lessor by delivering or mailing a release hereof to Lessor, or by placing a release thereof of record in the county in which said land is located; thereupon Lessee shall be relieved from all subsequent obligations, express or implied, of this agreement as to the acreage so surrendered.
12. Notwithstanding anything contained herein to the contrary, upon the expiration of the primary term hereof, this lease shall terminate as to all lands covered hereby, except as to each well capable of producing oil and/or gas in paying quantities together with the proration unit and/or pooled unit allocated thereto (the size of said proration unit and/or pooled unit being hereby defined as the number of acres prescribed or permitted by proper governmental authority having jurisdiction, as the minimum number of acres required for the production of the maximum allowable from a well in the particular field and from the particular sand or formation

involved) as of the date of such termination from the surface down to one hundred feet (100') below the deepest producing formation drilled in each such well capable of producing oil and/or gas in paying quantities. Thereafter Lessee shall promptly execute and deliver to Lessor a recordable release of this lease as to all lands and depths as to which the lease has so terminated. Upon such partial termination each such producing proration unit and/or pooled unit shall become a separate lease subject to all of the terms and provisions hereof, so that production and/or operations from one such producing proration and/or pooled unit shall not constitute production and/or operations on any other such proration unit and or pooled unit. It is agreed that as long as this lease remains in force as to any part of said land, any portion of the land as to which this lease expires may, nevertheless, be used by Lessee, its successors and assigns, to the extent reasonably necessary for ingress and egress for gathering, transporting, treating, processing, and storing oil and/or gas produced from the land as to which this lease remains in force.

13. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing oil or gas therefrom by reason of scarcity of or inability to obtain or to use equipment or material, or by operation of force majeure, any federal or state law or any order, rule or regulation of governmental authority, then while so prevented, Lessee's obligations hereunder shall be suspended, and Lessee shall not be liable in damages for failure to comply therewith; and this lease shall be extended while and so long as Lessee is prevented by any such cause from conducting drilling or reworking operations on or from producing oil or gas from the lease premises; provided that Lessee shall never be relieved from the payment of any payment due under the terms of Paragraph 3. above during the primary term hereof so as to keep this lease in force in the absence of actual drilling operations. After the expiration of the primary term hereof, should this lease be kept in force under the provisions of this paragraph, Lessee shall nevertheless make payments to Lessor in a sum equal to twice the amount provided for any shut-in royalty payments during the primary term hereof, and at the same time and in the same manner as so provided for the payment of shut-in royalty payments in Paragraph 3. hereof.
14. Lessee agrees to furnish and or make available to Lessor, upon written request, daily drilling reports, copies of all logs run, surveys made, and any other well information that is public information, pertaining to wells drilled on said land, or on land pooled therewith, and copies of reports and forms files by the Lessee with the regulatory agencies in connection with such wells. Lessor agrees to hold all such information confidential so long as this lease is in force as to any part of said land.
15. This lease is given without warranty of title, express or implied and if it is later determined that this lease, in whole or part, might be covered by a prior lease(s), then this lease will be null and void as to any portion that is covered by a prior lease(s); however, it is expressly agreed and understood that in the event of failure of title or partial failure of title, a reimbursement or partial reimbursement of the bonus or other payments made hereunder by Lessee to Lessor shall be made by Lessor to Lessee, not to exceed the amount of such bonus or other payments. If Lessor owns an interest in said land less than the entire and undivided fee simple estate therein, then the royalties herein provided shall be paid Lessor in the proportion which Lessor's interest bears to the entire and undivided fee simple estate therein. Lessee, at its option, may discharge any tax, mortgage or other lien against Lessor's interest in said land, either in whole or in part, and in event Lessee does so, Lessee shall be subrogated to such lien with the right to enforce same and apply royalties accruing hereunder toward satisfying same. Lessor shall have and hereby retains a first lien upon all oil and gas produced from the lease premises, or lands pooled therewith, and attributable to the undivided interest covered hereby, to secure the payment of all royalty and other amounts that may become due hereunder to Lessor.
16. Lessee agrees to indemnify and hold Lessor harmless against any loss or claim, including legal fees and costs, arising directly or indirectly by reason of Lessee's operations on the leased premises.
17. Lessee will make reasonable surface damage settlement with surface owner for surface used in Lessee's operations in an amount as is generally customary in the area.
18. On or before the expiration of the primary term of this Lease, Lessee may pay to Lessor the cash sum of \$2,500 per net mineral acre covered by this Lease whereupon the primary term shall be extended for an additional two (2) years. This payment shall be based upon the number of net mineral acres on which Lessee desires to exercise this option. The right of Lessee to extend this Lease as provided herein is at the option, but not the obligation, of Lessee.

Legal JED
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ATTEST:

By: Jennifer Dickey  
Jennifer Dickey, Assistant Secretary

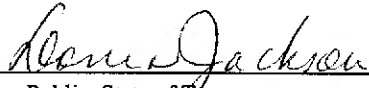
BAYLOR UNIVERSITY, acting by and through  
BAPTIST FOUNDATION OF TEXAS, its agent  
and attorney-in-fact

By: Joyce Bagley  
Joyce Bagley, Executive Vice President

Tax I. D. No. 74-1159753

STATE OF TEXAS                   §  
   §  
COUNTY OF DALLAS           §

This instrument was acknowledged before me on this 2nd day of November, 2009, by Joyce Bagley, Executive Vice President of Baptist Foundation of Texas, a Texas nonprofit corporation, on behalf of said corporation.

  
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Notary Public, State of Texas

